

Message Text

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ACTION ARA-10

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E.O. 11652: GDS

TAGS: ENRG, VE, EINV

SUBJECT: STATUS OF EXXON OPERATIONS IN VENEZUELA

REF: CARACAS 10644 (NOTAL)

CAUTION: PROPRIETARY INFORMATION INVOLVED

SUMMARY: EXXON OFFICIALS CALLED ON AMBASSADOR TO REVIEW COMPANY'S CURRENT PROBLEMS IN VENEZUELA. MAJOR CONCERNS ARE RECOVERY OF COMPENSATION BONDS FROM GUARANTEE FUND, REVIVAL OF BACK TAX CLAIM, AND INABILITY OR UNWILLINGNESS OF VENEZUELA TO SUPPLY ADEQUATE PETROLEUM TO MEET EXXON'S OFFTAKE NEEDS. END SUMMARY.

1. DONALD M. COX, SENIOR VICE-PRESIDENT EXXON CORPORATION CALLED ON AMBASSADOR SEPTEMBER 3 TO REVIEW CURRENT STATUS OF COMPANY'S OPERATIONS IN VENEZUELA. HE WAS ACCOMPANIED BY ROBERT DOLPH, OF EXXON'S LATIN AMERICAN REGIONAL OFFICE AND FORMER HEAD OF COMPANY'S VENEZUELAN OPERATIONS, AND MARTIN KING, PRESIDENT OF EXXON SERVICES, INC.

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EXXON'S LOCAL TECHNICAL SERVICES AFFILIATE. MR. COX

SAID EXXON HAD BEGUN ITS NEW RELATIONSHIP WITH THE GOV ON GENERALLY GOOD TERMS, BUT OVER PAST NINE MONTHS THERE HAD BEEN SOME DETERIORATION IN SPECIFIC AREAS.

2. COX DESCRIBED THE TECHNICAL SERVICES AGREEMENT UNDER WHICH EXXON PROVIDES SPECIALIZED PERSONNEL AND TECHNOLOGICAL ASSISTANCE TO LAGOVEN, THE VENEZUELAN COMPANY OPERATING EXXON'S FORMER PROPERTIES, AS WORKING VERY WELL. HE WAS LESS PLEASED WITH PROSPECTS FOR RAPID RECOVERY OF SOME \$200 MILLION OF THE COMPENSATION PAYMENT NOW HELD IN THE GUARANTEE FUND. HE SAID EXXON ORIGINALLY WAS TOLD THE INVENTORY OF ASSETS WOULD BE COMPLETED IN 1976, AND COMPENSATION BONDS IN THE FUND, NET OF DEDUCTIONS, WOULD BE RETURNED QUICKLY. HE NOW HAS DOUBTS ABOUT THIS, PARTICULARLY IN VIEW OF THE BACK TAX CLAIM (SEE BELOW). COX ESTIMATED DEDUCTIONS AGAINST EXXON'S SHARE OF THE GUARANTEE FUND WOULD BE \$50 TO \$70 MILLION (HE DID NOT APPEAR TO CONSIDER THIS EXCESSIVE.)

3. COX EXPRESSED CONSIDERABLE CONCERN REGARDING THE REVIVED CLAIM FOR BACK TAXES AGAINST EXXON AND OTHER FORMER CONCESSION HOLDERS. HE REVIEWED EVENTS UP TO THE PRESENT ESSENTIALLY AS REPORTED IN REF A. DOLPH ADDED THEY NOW HAD 45 DAYS TO TAKE THE MATTER INTO COURT, AND IN ACCORD WITH THE JANUARY 1975 LAW ESTABLISHING THE COMPTROLLER'S AUTHORITY, DID NOT, REPEAT NOT HAVE, TO PAY THE CLAIM OR POST BOND FIRST. BECAUSE THE LAW WAS NEW, HOWEVER, DOLPH SAID THERE WAS STILL SOME UNCERTAINTY ABOUT THE COMPTROLLER'S ROLE BEYOND THIS POINT. HE ADDED HE HAD HEARD THAT THE COMPTROLLER'S OFFICE WAS PREPARING ADDITIONAL CLAIMS, FOR \$45 MILLION IN THE CASE OF EXXON, FOR THE FEW MONTHS IN EARLY 1971 WHEN THE COMPANIES CONTINUED TO CALCULATE TAXES BASED ON THE LOWER REFERENCE PRICES. COX NOTED THAT JUST THE EXISTENCE OF THIS CLAIM COULD DELAY REPAYMENT FROM THE GUARANTY FUND. HE ALSO COMMENTED THAT THE REVIVAL OF THE TAX CLAIM, WHICH EVERYONE HAD BELIEVED WOULD BE ALLOWED TO DIE, WAS CONFIDENTIAL

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PROBABLY JUST AN ADMINISTRATIVE FOUL-UP. BUT HE STILL COULD NOT HELP BUT WONDER ABOUT THE REPEATED ASSURANCES RECEIVED FROM GOV OFFICIALS THAT IT WOULD NOT BE A PROBLEM. IN THIS CONTEXT, HOWEVER, HE SAID IT WAS NOT THE INTENT OF THIS VISIT TO REQUEST ASSISTANCE FROM THE EMBASSY.

4. PROBLEMS HAVE ALSO ARISEN REGARDING THE OFFTAKE

AGREEMENT UNDER WHICH EXXON WAS TO BUY OIL FROM VENEZUELA, WITH VOLUMES AND PRICES TO BE FIXED EACH CALENDAR QUARTER. COX SAID NEGOTIATIONS ARE NOW UNDERWAY FOR THE FOURTH QUARTER OF 1976, AND EXXON HAS JUST RECEIVED THE NEW PRICE LIST. THE LARGEST INCREASE WILL BE ON HIGH-SULFUR RESIDUAL FUEL OIL (UP 70 CENTS PER BBL) WITH CRUDE OIL PRICES UP APPROXIMATELY 5 CENTS PER BBL ON LIGHT CRUDE, 25 CENTS ON MEDIUM CRUDE, AND 40 CENTS ON HEAVY CRUDE. COX COMMENTED THAT WHILE THESE PRICES MIGHT BE ON THE HIGH SIDE, THEY DID NOT SEEM UNREASONABLE UNDER CURRENT MARKET CONDITIONS. HE WAS MORE CONCERNED WITH THE VOLUME OF OIL TO BE MADE AVAILABLE FOR EXPORT. GOV HAS TOLD EXXON IT IS UNABLE TO SUPPLY THE VOLUME REQUESTED BY THE COMPANY. EXXON IS UNCERTAIN WHETHER THIS DUE TO ACTUAL PRODUCTION CONSTRAINT OR RELATES TO GOV'S DESIRE TO HOLD PRODUCTION DOWN TO ITS EARLIER STATED PRODUCTION GOAL OF 2.2 MILLION BARRELS PER DAY, POSSIBLY AS A MEANS OF FORCING UP PRICES. CURRENT PRODUCTION IS AT OR A LITTLE ABOVE 2.4 MILLION, AND EXXON ESTIMATES PRODUCTION CAPACITY IS NOW DOWN TO A RANGE OF 2.5 TO 2.55 MILLION. IF GOV IS SERIOUS ABOUT 2.2 MILLION LIMITATION, IT WILL HAVE TO CUT CURRENT PRODUCTION SHARPLY AND MAY NOT EVEN BE ABLE TO SUPPLY AMOUNT IT HAS OFFERED EXXON FOR FOURTH QUARTER.

5. COX CONCLUDED WITH COMMENT ON VISIT BY MINISTER OF MINES HERNANDEZ TO SAUDI ARABIA, SUGGESTING THAT IF VENEZUELA DID INTEND TO HOLD DOWN PRODUCTION IN ORDER TO RAISE PRICES, HERNANDEZ MAY HAVE BEEN CHECKING ON SAUDI INTENTIONS WITH RESPECT TO SELF-IMPOSED 8.5 MILLION BARRELS PER DAY PRODUCTION
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CEILING. THE VENEZUELAN, HE SAID, HAD CERTAINLY SEEN THE RECENT REPORT BY WALTER LEVY (REPORTED IN PETROLEUM INTELLIGENCE WEEKLY OF AUGUST 23) PREDICTING A WORLD SHORTAGE BY MID-1977 IF SAUDI ARABIA DID NOT RAISE PRODUCTION. HE ADDED THAT EXXON'S PROJECTIONS INDICATED SUPPLIES WILL BE TIGHT BY THEN, BUT THAT PROBLEM NOT LIKELY TO BE AS SERIOUS AS DESCRIBED BY LEVY.

6. ON LEAVING, DOLPH SAID HE HOPED TO REVIEW SOME OF ABOVE POINTS WITH ASST. SEC. SHLAUDEMAN AND FRANK DEVINE IN WASHINGTON IN THE NEXT WEEK OR SO.
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